



PUBLIC EMPLOYEE RETIREMENT SYSTEM OF IDAHO
607 North 8th Street
BOISE, IDAHO 83702

MINUTES
OF
MEETING OF RETIREMENT BOARD

The Board of the Public Employee Retirement System of Idaho met at the PERSI Administration Building, 607 North Eighth Street in Boise, Idaho at 8:30 a.m., July 25, 2000. The following members were present:

Chairman Jody B. Olson
J. Kirk Sullivan
Pamela I. Ahrens
Dennis L. Johnson
Susan K. Simmons

Executive Director Alan H. Winkle, Deputy Attorney General Brad Goodsell, Chief Investment Officer Robert Maynard, Deputy Director Ted Aho, Financial Officer Jim Monroe, Medical Advisors B. Strouth, John Mather and Craig Beavers, and Management Assistant Joanne C. Ax were also in attendance. Other persons attending portions of the meeting were:

Doug Dorn
Richelle Sugiyama
Drew Black
Brian McGrath
Marta Watson
Jennifer Carrington
Mario Gianinni
John deLuna
Jordan Heller
Brent Nye
Robert Schmidt
Karen Steffen
Rod MacKinnon
Bill Pumbo
Charlie Brown

Dorn, Helliesen & Cottle
Dorn, Helliesen & Cottle
D.B. Fitzpatrick & Co
D.B. Fitzpatrick & Co
DFM
LSO
Hamilton Lane Advisors
State Street Global Advisors
Office of the Governor
Boise School District
Milliman & Robertson
Milliman & Robertson
Mountain Pacific Investment Advisors
Mountain Pacific Investment Advisors
Retired Educators Assn. of Idaho

James Coleman
Jerry Rasavage

PERC
IPEA

EXECUTIVE SESSION:

Chairman Olson noted for the record the necessity to hold an executive session to discuss matters exempt from disclosure as provided in Chapter 3, Title 9, Idaho Code and that Idaho Code §67-2345 (1)(d) authorizes the same. By motion duly made by Trustee Johnson, seconded by Trustee Simmons and unanimously approved, the Board went into executive session at 8:32 a.m.

After discussion of each disability applicant, the Board resumed the regular session at 9:00 a.m. By motion duly made by Trustee Ahrens and seconded by Trustee Sullivan, the Board unanimously approved the disability applications of Janet Corson with a review in one year, Clair Call, Jerald Conrath, Stanley W. Greif, Linnie Jensen, Carol L. Nelson, and William B. Rybarczyk with no review; and Gloria Luther and Georgia Specht with a review in six months. In the same motion, the applications of Shirley J. Woodruff and Todd McCarroll were denied, not meeting the requirements of PERSI statute.

OLD BUSINESS:

Approval of the Minutes: By motion duly made by Trustee Ahrens and seconded by Trustee Sullivan, the Board unanimously approved the minutes of the June 22, 2000 regular meeting of the Retirement Board as submitted.. Then, by motion duly made by Trustee Simmons and seconded by Trustee Johnson, the minutes of the Private Equity Sub-Committee's June 23, 2000 meeting were unanimously approved.

ACTUARY:

Actuaries Karen Steffen and Robert Schmidt of Milliman and Robertson reviewed their report, the 2000 Investigation of Experience of the Public Employee Retirement System of Idaho which had previously been furnished to the Board and staff. Ms. Steffen said this report is being done on its regular schedule, not on a special request due to the gain sharing issue this year. Economic assumptions are reviewed every two years; any changes that are recommended are done so for the long term for the fund. On this regular cycle, the active-member data has been studied to see if assumption changes should be recommended to the Board. Ms. Steffen said there are also new actuarial documentation requirements her staff has included. At the August meeting which Actuary Robert Schmidt will attend, the Board will adopt any assumption changes. There was considerable discussion of the assumptions PERSI uses and the impact of any changes. Ms. Steffen noted that the decision to terminate employment appears to be motivated by service rather than age. PERSI has so few disability retirements, that no changes will currently be recommended in that assumption, even though the eligibility has been lowered to 5 years from 10 years of service. She recommended that, as usual, PERSI take small steps in the direction of indicated changes, rather than larger ones. She likened the change of direction to that of slowly turning a steering wheel. Small changes to the assumptions will be recommended in the report in August.

Trustee Johnson commented that any change on the proposed methodology change for duration withdrawal rates should be cost neutral. Ms. Steffen agreed that a neutral path which

will maintain integrity and address any changes of assumptions in a measured, small step method is preferred. Trustee Ahrens said the Department of Administration is seeing more turnover rather than a decrease as indicated by the actuary. Mr. Winkle noted that when employees move between departments of the State of Idaho, the system does not count that as turnover. All agreed on the need to continue to observe the trend. Trustee Sullivan voiced a concern that it appears we would apply new assumption numbers to last year's performance, rather than use the assumptions that were in place during that time frame. He asked staff to explain that rational to him before the next meeting.

PORTFOLIO

Monthly Report: Doug Dorn of Dorn, Helliesen & Cottle reviewed the performance report for the period ended July 19, 2000. The report showed a Total Fixed Income portion return of 1.5% for the second quarter and a Total Fund return of a negative 1.9% for that time frame. Mr. Dorn discussed some individual manager performance saying the TIPS investments which are 8% of our portfolio, has been a very good investment for PERSI.

Monthly Portfolio Update: Mr. Maynard reviewed his Investment Report dated June 30, 2000, which showed a total fund return of 13.2% for the fiscal year end. He discussed PERSI's diversification tactics and said the active managers added value this year. Chairman Olson recalled that ten years ago when the decision was made by the Board to invest globally, there was resistance from those who said "there is no reason to be offshore." Chairman Olson said the Board, as fiduciaries, is entrusted with the responsibility to invest the funds appropriately and must have the ability to choose and pay for advisors.

Commenting on the Investment Report dated July 24, 2000, the CIO said the fiscal year ended very well for the PERSI fund. The international, global and growth sectors of the PERSI portfolio drove substantial outperformance for the fiscal year over both the base asset allocation and over peers. PERSI's fiscal year returns were 13.2%, beating the base asset allocation by over 3%. And, without international, global, and active management exposure (i.e. simply US equity and debt), PERSI's overall return would have been only 7.9%, slightly below even the actuarial assumptions. FY2000 was an example of the benefits of diversification. When US markets were only slightly up for the fiscal year, the overseas and active exposure added substantially to returns at a time when those returns were needed for purposes of COLAs, paying for new benefits, and gain sharing.

Alternative Investment Review: Mario Gianinni discussed the Hamilton Lane Report dated March 30, 2000 which reported valuations and performance calculations, gave an overview of each private equity partnership and real estate investment, gave listings of the portfolio companies held by the private equity partnerships, an investment portfolio assessment containing data summarizing capital contributions, committed capital, and an assessment of the investment's performance to date. Graphs reflecting portfolio diversification and percentage of capital were also provided. Mr. Maynard added that the REITS are actually outperforming our other fund managers. Paul Saylor has not found other real estate investments to recommend at this time; he has been instructed to bring only those of the highest quality to Mr. Maynard for consideration.

Other Investment Business: Chairman Olson invited managers in attendance to comment. Mr. Maynard introduced John deLuna of State Street Global Advisors (SSGA) who was attending the meeting. Chairman Olson commended him on SSGA's returns for PERSI. Brian McGrath of DB Fitzpatrick, Inc. believes that we've reached an end to the recent Federal Reserve Board rate increases. The market will continue to watch the economy to gauge how much of the slowdown is seasonal and how much is real. Rod MacKinnon and Bill Palumbo of Mountain Pacific Investment Advisors discussed the earnings growth rate and the cycles of some of the markets. Retired Professor Tom Stitzel commented that as an observer of the system and now as a retiree, he is grateful for PERSI's world-class CIO, Robert Maynard. John deLuna added praise for the Board of Trustees saying they run a good Board.

Chairman Olson noted that of 77 statewide retirement systems, PERSI is rated #8 in our funded position. He asked staff to release that information to the press along with the Board's hope to provide gain sharing.

Trustee Dennis Johnson has been reappointed by Governor Kempthorne to a second five-year term. Chairman Olson presented him with a PERSI five-year pin, expressing appreciation for the expertise Mr. Johnson brings to the Board, especially on the liability side.

FISCAL:

Fiscal Update and Expense Reports: Financial Officer James Monroe reviewed his July 20, 2000 memorandum summarizing fiscal items of interest. Discussing the Administrative Expense Report for the month ended June 30, 2000, he explained some of the encumbered items. He also noted that because during the past year we have used permanent employees for testing of the Galena modules, we are using more employees from temporary agencies to do some of the daily work in the regular positions to lighten the workload. The testing requires knowledgeable employees.

The Portfolio Expense report indicates we finished the year with administrative costs of 40.8 basis points, well within the 50 basis point target. Mr. Monroe said most of the appropriations carrying into the new fiscal year have to do with the retiree medical study and gain sharing program. The quarterly out-of-state travel report was also provided to the Board.

Initial Budget Request Ideas for FY2002 Discussion: Mr. Monroe had previously furnished copies of proposed budget request items for the next fiscal year to the Board. The Board will continue their review of the items which will be on the August agenda for FY 2002 budget request approval. Mr. Johnson said that last year the Board had asked for and received permission from the Board of Examiners to award a bonus over the limit amount. He asked whether those funds had been taken from some other budgeted allocation. Mr. Winkle said they were, but have been replenished. Trustee Johnson asked if there is anything that would preclude the Board from being able to follow that process again; Mr. Winkle said there is not. Trustee Simmons asked if those funds were in the portfolio appropriation side; Mr. Winkle said they were.

There was some discussion of the staffing requested for the continued implementation and operation of the gain sharing program. Mr. Monroe said the original plan was to bring the needed staff on gradually. Those needed for planning and overseeing are now being hired and the support staff is to be added as the allocations are actually made and workload increases. Trustee Simmons asked if a "bundled or unbundled" approach affects the staffing level needs. Mr. Winkle said it would not. PERSI will still handle the same functions either way and

outsource the same functions either way. Mr. Winkle said the new DC Plan Program Specialist will be the project manager for the gain sharing program. She will report to Deputy Director Ted Aho who will report to Mr. Winkle. Functions of the gain sharing program will be integrated into existing work sections such as communications and payment of benefits. Communications Officer Becky Crowther will supervise the education arm of the program with two trainers dedicated to getting information on the PERSI DB and new DC plans to our employers and employees.

Trustee Ahrens asked if we have a chart that shows what duties we intend to assign to the new positions being requested in the FY2002 budget request. Mr. Monroe apologized for not including the three-year projection chart that had been discussed last year when legislation was being discussed and when fiscal impact and workloads were studied. PERSI studied the staffing charts and plans of other systems such as the State of Washington who recently completed a similar plan change. After careful review, PERSI requested considerably fewer positions and chose a phased-in approach to staffing for the gain sharing program. Mr. Winkle said we believe these positions will be necessary to handle the needs of the members; however, if current staff can handle the workload, the positions will not be filled. Because of the state's forward budgeting process, we must predict into FY2002 what our staffing needs will be. Chairman Olson asked for further discussion and more background information at the August meeting when the budget request will be approved by the Board.

Mr. Monroe discussed the budget request to fund a business resumption plan. This would provide for a "hot site" location where business could be conducted in the event of a Boise Valley disaster, as well as less drastic disaster plan needs. Last year, our auditors commented on the need for this. Mr. Monroe also reviewed the requests for temporary staffing and for a portfolio accountant.

EXECUTIVE DIRECTOR

Gain Sharing – DC Plan Design: Mr. Winkle presented information on the implementation of the Gain Sharing program that he had discussed earlier with Trustee Sullivan. The major functions are member education, record keeping and investment management. He presented plan design options and discussed the advantages and disadvantages of both a single vendor approach and a selected vendor approach. He had also provided a memorandum and copies of a letter from Senator Dean Cameron supporting a single-vendor (bundled) approach.

There was considerable Board discussion of the costs involved in using a single vendor and in using a selected vendor approach. The cost to members of investment fees, how they affect a particular individual, and the fiduciary obligations of the Board received lengthy consideration. Discussing the competitiveness with private industry issue, Mr. Maynard said PERSI is not trying to make a profit on investment fees as private companies must. Trustee Johnson discussed the issue of how PERSI can be fair to private industry and asked how an expense factor for PERSI index funds should be calculated. Mr. Winkle said the only answer, at this point, for dealing with meeting the Board's fiduciary duty to provide a plan in the best interest of our member beneficiaries – while still providing opportunity for competitive vendors to provide their services -- may be by disclosure of investment costs.

The RFP for Education services is currently open and in order to get the record keeping in place for January 2001 implementation, the Record Keeping RFP needs to be opened immediately. The Board Trustees continued to discuss how using separate education, record

keeping, and investment vehicle providers would work. In response to a question from Trustee Ahrens, Mr. Winkle said the RFP's state that if a gain sharing event does not occur, the contracts are placed "on hold" and no expenses are incurred. Referring to the earlier budget request discussion, Ms. Ahrens expressed concern regarding planning to add more employees which adds overhead costs, when we don't know how much money will be going into the DC Choice plan over the long term. What if there is one gain sharing allocation and then no more for ten years or so? There was further discussion on administrative costs and cost accounting issues. Chairman Olson asked Financial Officer James Monroe to provide more information on these cost issues. By motion duly made by Trustee Ahrens, seconded by Trustee Sullivan and unanimously approved, the Board adopted the concept of using separate education and record keeper vendors, stating that the gain sharing program will offer index funds and investments through other vendors.

Authorization to Appoint Hearing Officer: By motion duly made by Trustee Ahrens and seconded by Trustee Sullivan, the Board unanimously authorized the Executive Director to immediately appoint a hearing officer from the approved hearing officer list if an appeal is taken by the Retired Firefighter's Association of Idaho from the Executive Director's final decision.

Status Update: Reviewing his July 19, 2000 memorandum that had previously been furnished to the Board, Executive Director Winkle said the Retiree Medical Advisory Committee had approved the concept of the study. Survey questions should be ready soon for distribution.

Legislative Ideas: Deputy Attorney General Brad Goodsell answered questions regarding his July 19, 2000 memorandum to the Board, saying four of the legislative "ideas" are technical corrections and will be incorporated into one bill. Answering a question from Trustee Ahrens, he said the corrections are not from recently passed legislation. Three other concepts were discussed and approved for submission as ideas. Trustee Ahrens also expressed concern about allowing members over age 65 to return to work, full time, without again becoming a member. Those ideas approved by the Governor are then converted into pre-filed bills for the upcoming legislature, after Board approval. By motion duly made by Trustee Sullivan, seconded by Trustee Simmons and unanimously approved, the Board approved the submission of the legislative ideas to DFM by the August 4, 2000 deadline. The Trustees noted for the record that their appetite for political activity this year is quite low, after completing the 2000 legislative session.

New Employer Unit: By motion duly made by Trustee Johnson, seconded by Trustee Simmons and unanimously approved, the Board welcomed the City of Georgetown as a new employer with an effective date of June 1, 2000.

Adjournment: There being no further business to conduct, the meeting was adjourned at 11:58 a.m.

FUTURE BOARD MEETINGS

Tuesday, August 22, 2000, 8:30 a.m., Boise – PERSI office

Tuesday, September 26, 2000, 8:30 a.m., Boise – PERSI office

Tuesday, October 24, 2000, 8:30 a.m., Boise – PERSI office

Jody B. Olson
Chairman

Alan H. Winkle
Executive Director